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TAGS: PREL ELTN EFIN PGOV ETRD ECON CS
SUBJECT: COSTA RICAN ROADS SUFFER NEGLECT, NOW A FOCUS OF THE GOCR AND THE IDB

¶1. SUMMARY: After nearly two decades of neglect, Costa Rica's roads and transportation infrastructure in general are about to receive significant investment courtesy of the Inter-American Development Bank (IDB). The IDB approved a USD 850 million line of credit to rehabilitate roads, railways, and ports in desperate need of repair. This amount will be matched by a USD 200 million investment by the GOCR for a total infrastructure investment of USD 1.05 billion. Meanwhile, construction finally restarted on the 30 year-delayed connector highway between the Central Valley (where San Jose is located) to the Pacific port of Caldera, and is projected to finish in mid-2010. Improvements to the highway system are desperately needed to support increased intra-city, interregional, and cargo traffic likely to result from implementation of CAFTA-DR and potential trade agreements with the European Union and China. Highway improvements should also help make Costa Rica's highways safer. Auto accidents are the leading cause of violent death in the country. END SUMMARY

MANY ROADS, BUT NOT SO GOOD

¶2. Costa Rica has one of the densest road networks in Latin American with 0.70 kilometers of road for kilometer squared of land and roads are the principal means of transporting goods and people in the country. The national road system includes 4,905 km of paved roads and an additional 2,734 km of gravel and dirt roads that are classified as in good, medium, or bad condition. Roads classified as in "good" condition, 24 percent, are in the minority:

Condition:	-- Good --		-- Medium --		-- Bad --	
	KM	Percent	KM	Percent	KM	Percent
Paved	1197	24%	2282	47%	1436	29%
Gravel/Dirt	50	2%	1795	66%	890	32%

Source: MOPT

Costa Rica's road system also includes 29,014 km of roads maintained by municipalities, including 4,454 km of paved roads. Thirty percent of these paved roads are considered to be in "good" condition.

¶3. Whether part of the national or municipal system, many kilometers of roadway are riddled with potholes, regularly washed out in the rainy season, equipped with old and poorly-maintained bridges, or constructed with too few lanes to accommodate heavy, slow-moving truck traffic as well as private vehicles ascending and descending mountainous terrain. The poor condition of many roads and highways impacts tourism, logistics, and safety: the average speed of advance (even between major cities with normal traffic) can be as low as 30 miles per hour which surprises tourists, increases business

transportation costs due to time, and increases accident rates as drivers attempt to overtake slower-moving traffic on winding, mountainous, two-lane roads.

¶4. In the last twenty years, the population of Costa Rica grew from 2.7 million in 1987 to approximately 4.4 million in 2007. This 59 percent population growth was accompanied by a large increase in the number of drivers in Costa Rica. The Ministry of Public Works and Transportation (MOPT) estimates that there are twice as many cars on the road in Costa Rica today compared to ten years ago. In 1984 there was one car for every 12 residents, now there is one car for every four.

TOO MANY CARS, NOT ENOUGH CAPACITY

¶5. With a steady increase in vehicular traffic, neither highway capacity nor road system maintenance has kept pace with the expanding country. Throughout Costa Rica, and particularly in metropolitan San Jose, serious traffic congestion bogs down the transport of goods and people. Increased trucking, as a result of overall economic growth and the termination of the train link from San Jose to the major ports on both coasts (due to the 1991 earthquake), added an additional strain to the road system.

¶6. One example of national frustration with the growing gap between road capacity and the increase in vehicles is the long-awaited San Jose-Caldera road. Underway for 30 years and repeatedly blocked by land acquisition and financing and political obstacles, construction has

finally resumed. The 77 kilometer right-of-way stretches from the west side of San Jose to the Pacific port city of Caldera. MOPT estimates a savings of 45 minutes in travel time (currently a two-hour trip under ideal conditions) plus a reduction in transit accidents and fuel consumption.

¶7. Critics point to the rising construction costs (from USD 150 million to USD 265 million with a concomitant rise in projected one-way tolls from USD 2.70 to USD 3.50) and usage biased toward heavy transport when highway sections outside of San Jose are only one lane each way. MOPT predicts a best case scenario completion date of mid-2010. Autopistas del Sol, an Argentine-led consortium (financed by Banco Centroamericano de Integracion Economica and Caja de Madrid), will develop and manage the concession and will recoup its investment through tolls. Autopistas del Sol will be responsible for operating the highway for 25 and a one half years.

HOW TO FINANCE ROADS

¶8. In the 1960s and 1970s, Costa Rica was a regional leader in investment related to infrastructure improvements, including the construction of its segment of the Inter-American Highway. In fact, in the 1970s, government investment in the road system climbed to six percent of Costa Rica's Gross National Income (GNI). However, the financial crisis in the early 1980s led to a significant decrease in funding for road maintenance and construction. During the previous administration (2002-2006), the rate of investment fell to just 1 percent of GNI. To emphasize the state of neglect, MOPT Minister Karla Gonzalez remarked to a visiting Congressional delegation in March that highway revenues had not been allocated to the Ministry for more than ten years.

¶9. The National Roads Council (CONAVI), a MOPT agency, wields budget authority and the responsibility for administering the Roads Fund. The Roads Fund receives financing from several sources: fuel and vehicle taxes, national and international loans, gains from investments, tolls, and vehicle fines.

¶10. The primary source of funding for national and municipal roads is a single fuel tax, currently set at 165 colones per liter (approximately USD 1.21 per gallon). Thirty percent of the annual revenue yield of this tax is allocated to CONAVI. Seventy-five percent of this allocation is earmarked for the National Road Network while the remaining 25 percent goes to municipal roads. MOPT anticipates receiving USD 140 million from the fuel tax in 2008.

¶11. Since 2006, CONAVI has been able to invest heavily in road maintenance as a result of the funding received through the single fuel tax. In 2006, it invested approximately USD 45.6 million and in 2007 investments totaled about USD 111 million. Looking forward, MOPT estimates that it will need an additional USD 75 million annually for maintenance and basic improvements of the existing paved roads of the national system as well as USD 50 million annually for gravel roads. (Source: MOPT)

THE IDB LENDS A HELPING HAND

¶12. The Inter-American Development Bank (IDB) extended an USD 850 million line of credit to the government of Costa Rica for the development of the country's transportation system. The IDB loan focuses on new construction projects rather than regular maintenance. The credit line must be approved by the Costa Rican national assembly because the IDB loan instrument has a preferred credit guarantee, which stipulates that the Costa Rican government must pay off this loan prior to other creditors. Without this guarantee, loans do not need to be approved by the legislature. Minister Gonzalez expects the IDB loan to be approved by end of the calendar year without major political controversy. However, as the tortuous approval process for the CAFTA-DR implementation legislation highlighted, "quick" action by the legislature is never a given.

¶13. The GOCR will match the IDB loan with USD 200 million. The first disbursement of USD 300 million from IDB plus a match of USD 75 million from GOCR will fund the First Road Infrastructure Program (PIV). The monies will be spent on rehabilitating 500 kilometers of

highways and bridges throughout Costa Rica. MOPT splits this first tranche for direct construction costs of USD 342.5 million and for engineering, administration, and support and capacity building to MOPT and CONAVI of USD 32.5 million. The IDB expects that the investment will result in a 20 percent reduction in the number of days that roads are impassable and a 10 percent reduction in the amount of time traveled on asphalt roads.

¶14. The IDB will disburse the USD 300 million loan over five years. The GOCR will pay back the loan over 25 years with a five year grace period. The anticipated interest rate is 5.64 percent annually.

¶15. Based on the assumption that the Legislative Assembly will approve the USD 850 million in IDB loans, MOPT has created a long-term plan for future road improvements and construction, entitled El Programa de Infraestructura de Transporte (PIT). The plan distributes funding between national and municipal roads in phases. The PIT also includes rehabilitation of additional highways, the metropolitan train system, and bike paths.

COMMENT

¶16. The legislative assembly is expected to approve the IDB line of credit, but the nature of the legislative approval process, complex to say the least, may still cause delays. Once this line of credit is approved and the first loan disbursed, road projects ultimately will

alleviate congestion, save time, and lower fuel costs, but all projects may endure the tenuous nature of construction contracting in Costa Rica. Improvements to the highway system are desperately needed to support increased levels of intra-city traffic, interregional traffic, and cargo transit resulting from the anticipated implementation of CAFTA-DR and potential trade agreements with the European Union and eventually, China. Road improvements are also part of the equation for lowering the accident fatality rate for Costa Rica, running at nearly 7 deaths per 100,000 thus far in 2008. Auto accidents are the leading cause of violent death in the country.

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